

Decision 06-07-021 July 20, 2006

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Michael Mills and Opal McAllister
of PureSource Water, Inc. to acquire Greenbelt
Water Company in Aptos, Santa Cruz County,
California.

Application 06-01-010
(Filed December 12, 2005)

O P I N I O N

1. Summary

Pursuant to Public Utilities Code §§ 851-854 and Decision (D.) 00-06-010 dated June 8, 2000, this decision grants authority to Evelyn Cavanaugh to transfer ownership of Greenbelt Water Company (Greenbelt) to PureSource Water, Inc. (PureSource), a newly formed corporation organized to own, operate and manage Greenbelt. Greenbelt is a small water corporation serving 79 connections in a service territory located in Aptos, Santa Cruz County, California. This proceeding is closed.

2. Procedural Background

This application was filed on January 17, 2006, and reviewed by the Administrative Law Judge (ALJ) Division. The matter was reassigned on March 23, 2006, to the Commission's Water Division.

In D.00-06-010 dated June 8, 2000 Michael Mills (Mills) and Opal McAllister (McAllister) were ordered to form a legal entity to acquire Greenbelt and to file the requisite application to the Commission to initiate a transfer of ownership. Upon further review, and noting the absence of any objection to the

sale, the Water Division concluded that an evidentiary hearing in the matter was not required.

3. Facts

Since approximately 1913 residents several miles north of the Village of Aptos along Redwood Drive in Santa Cruz County have been obtaining public water service, initially through individuals and entities no longer of record, and subsequently through the Aptos Water Company and its successor, the Monterey Bay Water Company.

In 1960, John S. Cavanaugh (Cavanaugh) and his wife Evelyn Cavanaugh (Mrs. Cavanaugh) and the Santa Cruz Land Title Company (Title Company) acquired approximately 290 lots along Redwood Drive in a rugged mountainous area. The Cavaughns were developers and sold home sites along Redwood Drive. About 1970, the Cavaughns obtained the Title Company's interest in the remaining lots.

After having provided water service to some of the Cavaughns' developed lots, Monterey Bay Water Company sold out to Soquel Creek County Water District, which later severed the connections to the Cavanaugh properties. Lacking the funds for what threatened to be a long and expensive legal battle, the Cavaughns installed their own well, storage tank, and distribution main to serve their developed properties.

By 1970, the Cavanaugh Water System was serving 17 customers. As the result of a complaint by three of these 17 customers, by D.77059 (April 7, 1970) the Commission determined that the system was a public utility. Further connections were prohibited until certain improvements were made.

By D.91980 in 1980, the Cavanaugh Water System was incorporated as the Greenbelt Water Company, Inc. (Greenbelt).

In late January 1997, the Cavanaughs stipulated in an agreement with Mills and McAllister, pending a final decision in Order Instituting Investigation (I.) 96-09-002, that the Cavanaughs would cede control of the finances and operation of the Greenbelt system to Mills and McAllister. The latter were to establish appropriate books and accounts, make system repairs as needed, operate the system, and remit the surcharges for the Safe Drinking Water Bond Act (SDWBA) loan repayment to the Fiscal Agent. Water Division agreed to initiate a rate increase for Greenbelt.

The second Pre-Hearing Conference was held by Administrative Law Judge Weiss in Santa Cruz on March 27, 1997, shortly after the death of John Cavanaugh. Mrs. Cavanaugh was unable to attend. However, representatives from the Fiscal Services Department of Department of Water Resources (DWR), the Santa Cruz County Health Services Agency, and the Office of the Santa Cruz District Attorney attended along with Mills and McAllister and customers.

Mills reported that each month he had been depositing the customer surcharge payments on the SDWBA loan with the Bank of America Fiscal Agent Account, and had also taken action as previously directed by the ALJ to reconcile past due customer accounts. DWR reported that as of March 1997 their books showed a loan balance of \$137,127.40. Of this, \$113,106.19 represented principal and \$24,026.21 represented interest. But these figures did not include penalties because of missed payments. As of January 1, 2006, their books showed a loan balance of \$16,242.84. It appeared to all present that it would be best to have Mills-McAllister continue operating Greenbelt.

4. Discussion

The Mills-McAllister combination has done a commendable job in operating the system the past several years. They have expressed their interest in acquiring the system if they can obtain some protection against prior obligations

incurred by the Cavanaughs other than the remainder of the SDWBA loan. Mills-McAllister requested and agreed to reduce the loan amount by \$54,000 collected for the loan by the Cavanaughs and \$3,500 received from the sale of the Cavanaughs' properties. They have regularly met the system's loan payments and have the technical and managerial abilities to run the operation.

Mills and McAllister filed the application to acquire Greenbelt in compliance with the Commission's D.00-06-010, dated June 8, 2000.

5. Comments on Draft Decision

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Public Utilities Code § 311(g) (2), the otherwise applicable 30-day period for public review and comment is being waived.

6. Assignment of Proceeding

Kevin Coughlan is the assigned Examiner in this proceeding.

Findings of Fact

1. Beginning approximately 1960, the Cavanaughs developed and sold building sites along Redwood Drive in Santa Cruz County, initially obtaining water service to those sites from a local water utility.
2. After losing this local water supplier, the Cavanaughs were forced to develop their own water system to serve their subdivision.
3. As the result of customer complaints, in 1970 the Commission declared the Cavanaugh water system to be a public utility subject to Commission regulation.
4. The Cavanaughs incorporated the water system as Greenbelt in 1980.
5. In January 1997, the Cavanaughs stipulated to the Mills-McAllister operation of the water system pending a final decision in I.96-09-002, with the Mills-McAllister team to remit surcharge payments to a Fiscal Agent for the SDWBA loan.

6. D.00-06-010 ordered that Mills and McAllister be permitted a reasonable time in which to obtain corporate status, and thereafter to apply for formal Commission authorization to acquire Greenbelt from Mrs. Cavanaugh and/or the Cavanaugh Estate.

7. PureSource was formed in 2005 with the stated purpose of acquiring and managing community water systems.

8. PureSource will be acquiring Greenbelt Water Company for a price of \$1.

9. Since only a transfer of ownership is proposed, it can be seen with certainty that the acquisition of this system will have no significant effect on the environment.

10. As a public utility, PureSource and its new owners are responsible to the Commission for remittance of the Public Utilities Commission User Fees.

11. A change in ownership of a public water system requires the new owner to satisfy Department of Health Services' requirements to operate a public water system.

12. After consummation of the acquisition, the current owner of Greenbelt Water Company will no longer provide public utility water service in the service territory. The new owners (PureSource) will assume these duties and obligations.

13. PureSource will serve all the present 79 customers and the future customers in Aptos, Santa Cruz County, California.

Conclusions of Law

1. PureSource has the legal capacity and experience to acquire and operate the water system of Greenbelt.

2. The acquisition of ownership and control of Greenbelt by PureSource is in the public interest and will provide tangible benefits to ratepayers.

3. Upon completion of the acquisition, the current owner of Greenbelt should be relieved of public utility water duties and obligations.

4. PureSource should apply to Department of Health Services for re-issuance of the existing permit of Greenbelt.

5. This order should be made effective immediately so as to permit prompt consummation of the acquisition.

O R D E R

IT IS ORDERED that:

1. Michael Mills and Opal McAllister are authorized to acquire Greenbelt Water Company and incorporate it into PureSource Water, Inc., (PureSource) based on the same terms and conditions with those set forth in Application 06-01-010.

2. The authority granted in Ordering Paragraph 1 shall expire if not exercised within 12 months after the effective date of this order.

3. PureSource shall provide the Director of the Water Division a copy of the State of California's Secretary of State Certificate of Status of Domestic Corporation and a copy of its Articles of Incorporation within 60 days.

4. PureSource shall provide the Director of the Water Division a copy of the permit to operate the water system granted to it by the Department of Health Services within 60 days.

5. PureSource shall, upon Commission staff request, make all books and records available for review and inspection either at the Commission's offices or at another location in California, or reimburse the Commission for the reasonable costs incurred in having the Commission staff travel out of State to the offices where the books and records are maintained.

6. The Corporate Identification Number assigned to PureSource remains unchanged.

7. PureSource shall record the acquisition of Greenbelt at original cost in accordance with the Uniform System of Accounts for Water Companies.

8. Upon compliance with this order, the current owner of Greenbelt shall be relieved of the public utility obligation, and the Certificate of Public Convenience and Necessity will be transferred to PureSource.

9. Application 06-01-010 is granted as set forth above.

10. Application 06-01-010 is closed.

This order is effective today.

Dated July 20, 2006, at San Francisco, California.

MICHAEL R. PEEVEY
President
GEOFFREY F. BROWN
DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG
Commissioners